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C O N F I D E N T I A L SECTION 01 OF 02 BRASILIA 000882

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TREASURY FOR F. PARODI

E.O. 12958: DECL: 05/05/2016
TAGS: [PREL](#) [EINV](#) [EPET](#) [XM](#) [BR](#)
SUBJECT: BRAZIL: ADDITIONAL DEVELOPMENTS ON BOLIVIAN
NATIONALIZATION OF ENERGY INSTALLATIONS

REF: BRASILIA 861 AND PREVIOUS

Classified By: CHARGE PHILLIP CHICOLA. REASONS: 1.4 (B)(D)

¶1. (C) Summary. Senior Brazilian Government (GOB) officials told emboffs that they viewed the 4 May meeting in Puerto Iguazu, Argentina as a "successful symbolic event" that demonstrated Presidents Lula, Morales, Chavez and Kirchner remain committed to regional cooperation and can talk productively about energy issues, in the wake of Bolivia's sudden nationalization of foreign-owned energy installations on May Day. But the gap between the GOB's official spin and public reactions appears wide. The tone of reporting in much of Brazil's media remains highly critical of the GOB's handling of the situation, and continues to depict an emerging Morales-Chavez axis that is pursuing an agenda at Lula's expense. End summary.

A POLITICAL GESTURE...

¶2. (C) Raimundo Magno, diplomatic advisor to Civil Household Minister Dilma Rousseff, told Charge on 5 May that the Argentina meeting was viewed by the GOB as a "successful symbolic event." The GOB's intention was not to engage in hard bargaining or concrete policy negotiations, but "to send a message" that the presidents are still united in seeking the goal of regional integration, and would be able to work together on the gas issues.

¶3. (C) In an earlier conversation on 4 May with PolCouns, Marcel Biato, deputy foreign affairs advisor to President Lula, had conveyed a similar message. Biato had not received a briefing on the meeting, but made a few observations:

-- The Argentina meeting is &a political gesture8 that Lula and Kirchner conceived on 2 May. The Brazilians wanted to use the summit to reinforce their continued political commitment to regional integration and comity, despite the events of recent days. At the same time, Lula intended to make it clear that the issues with Bolivia and Petrobras are strictly bilateral in nature. Biato said that Lula,s &soft8 position in the past two days is intentional, to

leave him room for maneuver. Petrobras President Gabrielli is providing the hard line in public, i.e., no price increase, no more investment in this climate, ready to go to arbitration. This is choreographed, a deliberate tactic, Biato said. (Comment: But it should be noted that Lula seemed to publicly undercut Gabrielli's hard line at the Argentina meeting, saying there is still the possibility of new Brazilian investment. End comment.)

-- Asked whether Planalto is not concerned about the harsh media reaction depicting Lula's response as weak, Biato said Lula and the GOB see no profit in engaging in megaphone diplomacy⁸ with Morales, and that the Brazilian media and public will come around to seeing the merit in a circumspect approach, &as the markets are already recognizing.⁸ Results are what count: if the GOB keeps the gas flowing at stable prices while Petrobras pursues its legal options, the wisdom of Lula's approach will be vindicated. Keeping a dialogue going is useful, Biato said, because Morales is going to realize sooner or later that Bolivia is not Venezuela -- i.e., foreign companies will, in fact, walk away if they must, so he needs to deal. Biato said the GOB is looking for this realization and perhaps political changes that come in Bolivia with the constituent assembly as factors that may affect Morales, position.

-- Challenged about the growing public perception in Brazil that Morales and Chavez are in cahoots at Lula's expense, and whether this does not undermine Brazil's regional unity vision, Biato was laconic. &What are we supposed to do? We can't choose our neighbors. We don't like Chavez's modus operandi or Morales, surprises, but we have to manage these

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guys somehow, and keep the regional integration idea alive.⁸

... THAT MAY HAVE BEEN A DUD

14. (U) But looking at Brazilian media coverage of the Argentina meeting, it is far from clear that the symbolism was as successful as the GOB hoped. Most Brazilian press following the meeting focused on Lula's failure to achieve any breakthroughs, and commentators continued to criticize the GOB response as weak and inadequate. Respected columnist Miriam Leitao stated on TV Globo that "President Lula has been inept throughout this crisis. The trip and joint interview were a disaster. It is obvious that it was not the moment to show solidarity with Morales...This was a disastrous week." Leading daily "Estado de Sao Paulo" carried comments by former Brazilian ambassador and Brazilian Petroleum Agency CEO Sebastiao de Rego Barros Netto expressing his bewilderment at the passivity with which Lula has reacted to events in Bolivia. And former Brazilian Ambassador to the U.S. Rubens Barbosa noted in "Folha de Sao Paulo" that Brazil's "national interest should come ahead of anything. The government is minimizing the expropriation." Brazilian media also highlighted a report in "The Economist" -- widely respected in Brazil's policy and finance communities -- saying the events in Bolivia are a victory for Chavez and his proxy, Morales, and a defeat for Lula. The optics were hardly kinder than the editorials. A large photo on the front page of "Estado de Sao Paulo" shows an awkward Lula standing between Kircher, Morales and Chavez -- the three of whom appear to be laughing at some joke told at Lula's expense.

COMMENT

15. (C) Ineptitude and mixed signals continue to characterize the GOB's response to Morales' fait accompli. And the Brazilian public and media remain riled up in an unusually vociferous way, voicing frustration with the GOB and growing suspicion -- if not outright animosity -- toward Chavez and Morales. It remains to be seen whether the public ire

continues. (Brazilians can forget such things quickly when the World Cup is on the horizon.) The real story of Brazil's response is probably just starting now, and will likely play out in the hard-headed world of corporate board rooms and arbitration court, with Petrobras -- which has legal obligations and share holder demands that may ultimately trump Lula's faltering dream of regional leadership -- doing the talking that matters for the Brazilian side. We will touch base with key political and energy sector contacts in the next days and report new developments.

CHICOLA